BRITISH BUSINESS INVESTMENTS

Annual Report and Accounts 2017

"Our latest investments have enabled us to extend our support for innovative and alternative finance in the market and to increase the supply of capital to ambitious small and medium sized businesses looking to scale up."

Catherine Lewis La Torre
Chief Executive Officer

Contents

A successful third year of growth

"British Business Investments is increasing the diversity of the finance market and producing positive investment returns for taxpayers in doing so."

At the end of 2016/17, British Business Investments – the commercial arm of the British Business Bank – has become recognised as an important enabler of new and diverse finance for smaller businesses. This recognition derives from a strong and growing track record of success since its inception.

British Business Investments is increasing the diversity of the finance market and producing positive investment returns for taxpayers in doing so. It does this by investing in smaller banks, non-bank lenders and venture capital funds to increase the choice of finance for smaller and medium sized businesses.

Commercially-focused

While the British Business Bank group has a wider overall remit, including subsidised activities and carrying out programmes on behalf of other parts of the government, as the commercial arm we focus on making fully commercial decisions on investments where they meet the group's strategic objectives and offer attractive returns for the taxpayer.

2016/17 has been another successful year for British Business Investments, following on from what we have achieved previously. The figures in this year's report, highlighted by our CEO, Catherine Lewis La Torre, in the following section speak for themselves, showing marked increases across the board over the last three years.

Over the last year, we have increased the level of commitment to both debt and equity partners. A particular focus has been catalysing the venture capital market, which is so vital in enabling fast-growing smaller businesses to achieve their potential and support the economy. This approach is being facilitated and encouraged by the government, which made an additional £400 million available to us for this purpose at the Autumn Statement 2016.

In response to reduced activity by the European Investment Fund the Chancellor recently announced that we will raise the limits on what we can invest in venture capital funds and bring forward some of the additional £400 million mentioned above.

Future aims

We will continue to build on our successes in developing existing and new market options for businesses seeking finance, working through our expanding portfolio of 38 partners.

We look forward to helping many more businesses, particularly those seeking to grow rapidly, get the finance they need to realise the success they deserve.

I would like to thank Catherine, who is now completing her first full year in office, and the other directors once again for their support, commitment and valuable commercial insight in helping us achieve our aims this year.

Keith Morgan
Chairman

> “Over the last year, we have increased the level of commitment to both debt and equity partners.”

Delivering against our objectives

"Our returns for the period are well ahead of the benchmarks set for the business by our shareholder."

We are pleased to be showing strong performance as we complete our third year of operation, delivering ahead of target on the objectives set by our shareholder, the British Business Bank.

During the year we added five new investment partnerships to our portfolio and provided additional capital to three existing successful financing partners. Cumulative commitments across the portfolio are now approaching £1.6 billion.

Our latest investments have enabled us to extend our support for innovative and alternative finance in the market and to increase the supply of capital to ambitious small and medium sized businesses looking to scale up.

We have achieved this whilst at the same time earning an attractive, commercial return for the UK government and the British taxpayer.

In the year to the 31 March 2017, we generated income from our investments of £60.5 million, which delivered a pre-tax profit of £55.1 million. These are significant increases on the prior financial year – 33% and 37% respectively – which will ensure that a significant dividend is paid to our shareholder.

Our gross return on average capital employed for the period was 7.4%, or 6.7% net of costs. Both returns are well ahead of the benchmarks set for the business by our shareholder and demonstrate the strength of our investment portfolio as well as the efficiency of our operations.

A diverse and performing debt portfolio

During the financial year we further diversified our portfolio and today we work with 38 different providers of capital to small and medium sized businesses. These include direct lending funds, asset finance businesses, challenger banks and FinTech companies and platforms.

Together these deliver a range of financial instruments spanning senior loans, unitranche facilities, mezzanine capital, leasing and venture debt. This ensures that a broad and diverse group of businesses can find the appropriate funding they need to meet their capital investment and growth plans.

> In the 2016/17 financial year we have again produced tangible, impressive results due to the commitment and hard work of everyone on the team.

We invest our capital on a pari passu basis alongside institutional and other investors who are seeking commercial returns that are commensurate with the investment risk undertaken. The funding we have provided in the market has also been successful in unlocking third party capital for our partners. In addition to our invested capital of £868 million, third parties have invested a further £6.3 billion alongside, resulting in total funding of £7.2 billion across the market. This capital was invested in almost 18,000 separate businesses at the end of March 2017.

Expanding our equity programme

The £400 million allocated at last year's Autumn Statement has enabled a major expansion of our Venture Capital (VC) Catalyst programme. This helps us address a recognised market gap in the UK where there is insufficient institutional capital available to invest in venture funds. Our programme has committed £78 million to nine venture capital funds to date.

More importantly, our capital has catalysed almost 13 times of additional third party funding resulting in more than £1 billion of capital available for innovative and high-growth companies that require long-term capital to start-up or scale-up.

An established and relevant role

We continually assess our current activities to make sure that these are delivering on both the strategic and commercial objectives that have been set. We also stand ready to step up our response or to address new areas where we identify that there is an insufficient supply of private capital for small and medium sized businesses, recognising that these companies form the backbone of the UK economy.

After three years of trading we have decided to refresh our brand. We have simplified our name to British Business Investments as reflected in our updated logo and showcased in this report.

In the 2016/17 financial year we have again produced tangible, impressive results due to the commitment and hard work of everyone on the team as well as the Investment Committee and Board. I would like to thank everyone for their efforts and look forward to building on our success further as we address the challenges and opportunities of the year ahead.

Approval of the strategic report

The following Strategic Report was approved by the Board and signed on its behalf by

Catherine Lewis La Torre
Chief Executive Officer

5 September 2017

Meeting our strategic and commercial objectives

British Business Investments continually assesses its current activities to make sure that these are delivering on both our strategic and commercial objectives.

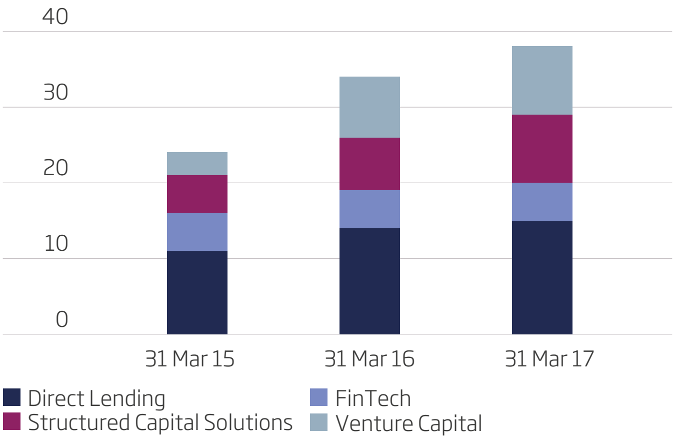
Our approach

1. Support
the development of diverse debt and equity finance markets

2. Promote
competition and increased supply through new and existing finance providers

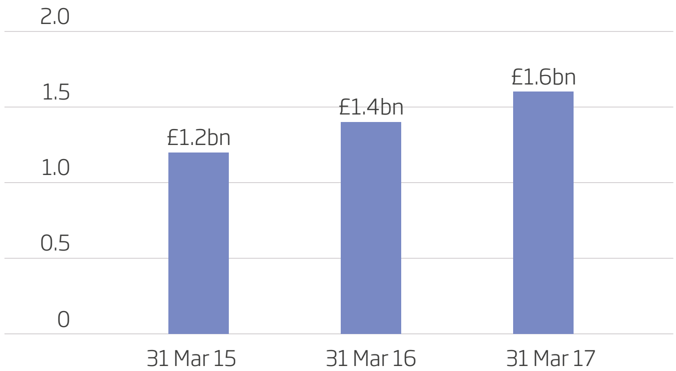
Supporting financial innovation and diversity

Number of investments in providers of capital



Promoting a greater supply of finance to the market

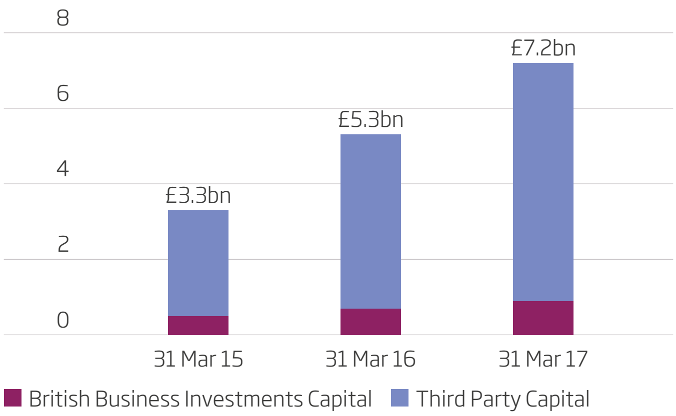
Portfolio commitments (£bn)



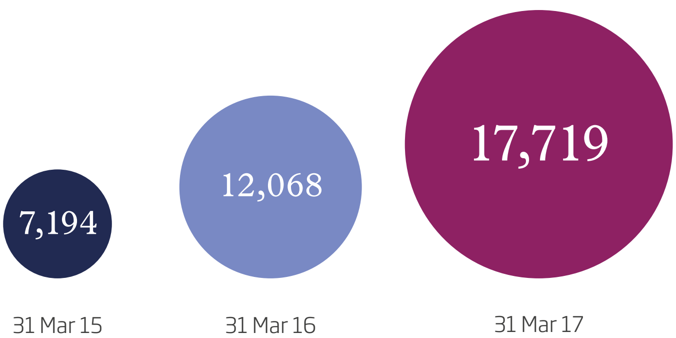
3. Increase
the level of finance to small and medium sized businesses

Increasing financing options for UK SMEs

Funding facilitated (£bn)



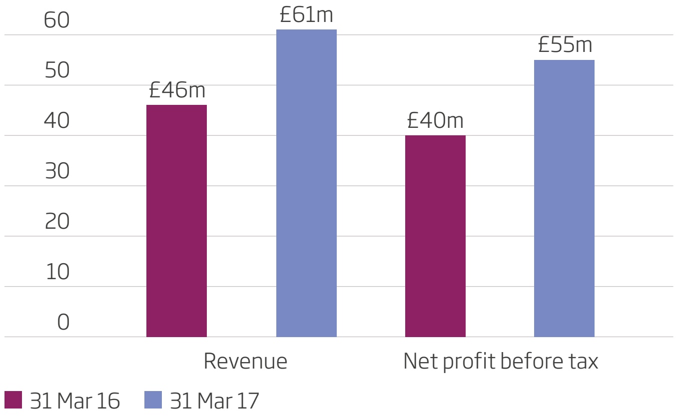
Number of businesses supported



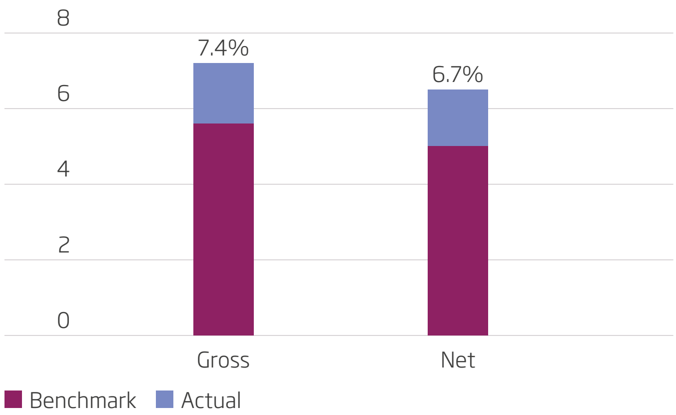
4. Deliver
a commercial return for our shareholder

Delivering in excess of our benchmark return

Profitability (£m)



Return on Invested Capital at 31 Mar 17 (%)



The year in numbers

£60.5m
income generated

£55.1m
pre-tax profit

7.4%
gross return on average capital invested

6.7%
return on average capital invested net of costs

Our Board

We have a Board and governance structure designed to protect our commercial approach which enables us to move quickly in investment decision-making.

Keith Morgan
Chair

Keith led the planning and establishment of the British Business Bank from January 2013, and was appointed Chief Executive Officer in December 2013. Prior to this, Keith was a Director at UK Financial Investments (UKFI), joining in 2009 to manage the UK government's shareholdings in Bradford & Bingley, Northern Rock and Northern Rock Asset Management. Keith joined UKFI from Banco Santander where he was a Director of Sovereign Bancorp in the US. He was previously Director of Strategy and Planning at Abbey National and a member of the Executive Committee, and served as Chairman of Santander's Asset Management and Credit Card businesses in the UK. Before joining Abbey in 2004, Keith spent 18 years at LEK Consulting, where he was a partner specialising in financial services.

Catherine Lewis La Torre
Chief Executive Officer

Catherine joined British Business Investments as CEO in September 2016.

Catherine was previously Head of Private Equity at Cardano Risk Management where she was responsible for managing a global portfolio of private capital investments with in excess of £1 billion of committed capital. Prior to this she was a Partner with secondaries specialist, Fondinvest Capital, in Paris having earlier been one of the Founding Partners of Nordic fund-of-funds manager, Proventure Private Equity. Catherine began her career as an Analyst with Venture Economics, now part of Thomson Reuters, before joining Cinven as an Investment Manager. Catherine has been an active investor in small and medium sized businesses and mid-market funds for over 20 years.

Sara Halbard
Independent Non-executive Director

Sara joined as a Non-executive Director in June 2016.

Sara co-founded the Credit Fund Management group at Intermediate Capital Group Plc ("ICG") in 1999 and led that business until 2008. At ICG she was a member of the Global Investment Committee and Management Committees. With a 30 year career in financial services, she has an in-depth knowledge of complex financial products, markets and financing options with specialist expertise in financing European leveraged buyouts. She currently acts as an advisor and angel investor to companies spanning entrepreneurial start-ups to multinational companies across a wide range of industry sectors.

Francis Small
Independent Non-executive Director

Francis became a Non-executive Director in June 2016 after spending 36 years at Ernst & Young in a wide variety of roles.

After initially working with small and medium sized businesses, he became an audit partner in Financial Services for seven years. He then joined the firm's Corporate Finance practice where he specialised in cross-border acquisitions, disposals, IPOs and restructuring. He ran the UK Corporate Finance practice before becoming Global Head of Corporate Finance and a member of the Ernst & Young's Global Board.

Francis lived and worked in the Middle East for two years, advising some of the world's largest sovereign wealth funds. After returning to London in 2010, he co-ordinated services to some of Ernst & Young's largest international clients.

Fiona-Jane MacGregor
Non-executive Director

Fiona-Jane is a Chartered Accountant with a career in the financial restructuring of troubled corporates, and in building valuable equity investments, often through influencing complex stakeholder groups in growing or underperforming enterprises.

Previously at Royal Bank of Scotland, Fiona-Jane joined UK Government Investments (UKGI) in 2012, where she was Chief Operating Officer until 2014. She created the Special Situations team in October 2014, which involved building a team of professionals, creating an operating model and working with senior stakeholders across government to ensure that sectors at risk of economic stress are identified and where appropriate contingency plans are designed in preparation for implementation. Recent areas of focus have included oil and gas, healthcare and government contractors.

Meet the team[1]

Mark Barry
Senior Manager

Mark joined the investment team in November 2015. He focusses on all aspects of the deal process as well as monitoring existing portfolio companies. Prior to joining, Mark spent three years at PwC, Dublin, where he was a Senior Associate in the Asset Management department.

Alex Bartolini
Manager

Alex joined in January 2016 from UBFS, a family office engaged in private equity placements in Africa, where he had worked since 2015. Prior to that Alex spent two and half years at GE Capital working in risk management and leveraged finance on several large and mid-cap sponsored deals across Europe and the United States.

Mark Coggin
Manager

Mark joined the team in June 2016 and is responsible for supporting the management of the portfolio, as well as new investments.

Previously, Mark worked for Ernst & Young as a Corporate Finance Executive specialising in transaction and investment-based support for both public and private sector clients, having started as a trainee in 2010.

Mark is a Chartered Accountant and member of the Institute of Chartered Accountants for Scotland.

Richard Coldwell
Director

Richard Coldwell joined the team in June 2012. He focuses on the direct lending debt funds, having previously been involved in building the peer-to-peer portfolio.

Richard is a Chartered Accountant with a background in corporate finance having worked for KPMG, ING and GE Commercial Finance.

Peter Garnham
Director

Peter is a founder member of the team, having joined in 2012 to help develop debt finance initiatives. He is now chairman of the company's Portfolio Monitoring and Valuation Committee.

Peter has a background in specialised lending and corporate finance gained in major investment banks and accountants Ernst & Young. More recently Peter developed venture capital company YFM Venture Finance as its Managing Director. He was Non-executive Director for two VCT funds and the investment fund of the Waste and Resources Action Programme charity.

Hala Georgy
Analyst

Hala joined in January 2016, having worked for a global firm 'NetApp' where she held an Operations Manager position, managing EMEA Account Receivables, working closely with internal treasury and J.P. Morgan bank.

Hala is a qualified accountant and also a member of the Association of Accounting Technicians.

Christine Hockley
Director

Christine joined the team in 2017 to focus on equity funds, having previously spent over two years in the Venture Solutions team at the British Business Bank where she was involved in investing the VC Catalyst programme and delivering the Enterprise Capital Fund Programme. She has a corporate finance and commercial background having worked at Bank of Scotland, PwC and BOC Industrial Gases.

Marilena Ioannidou
Director

Marilena joined in December 2013 and she is the team lead on FinTech investments, having previously led the mid-cap direct lending portfolio.

Her previous career was spent largely in corporate finance and investment banking, having been an Assistant Director at the Shareholder Executive in BEIS and a Vice President at Citigroup Global Markets where she worked in financial strategy, equity capital markets and Financial Institutions M&A.

Adam Kelly
Director

Adam joined in October 2013 and focuses on structured capital solutions.

Adam joined from the Shareholder Executive where he had worked since 2010. His previous career was spent in corporate finance at two investment banks, most recently in the Financial Institutions team at JP Morgan Cazenove from 2004 to 2010. Prior to that, Adam spent six years at Dresdner Kleinwort Wasserstein working in several sector specific teams.

Zimeng Luo
Summer Analyst

Zimeng joined in June 2017 as a summer analyst. She is currently pursuing a Master's degree in Financial Mathematics at University College London. Previous internships include private equity, M&A and consulting firms.

Zimeng is a CFA level 3 candidate and holds a B.Sc. degree in Financial Mathematics from Shanghai Jiao Tong University in China.

Jonathan Marriott
Senior Manager

Jonathan joined in June 2013 and specialises in asset finance. He has a wealth of SME lending experience having been employed in banking and finance since 1985. Jonathan previously worked for Yorkshire Bank, Santander plc and more recently RBS Invoice Finance Ltd where he held a Senior Relationship Manager position.

Jonathan is an Associate of the Chartered Institute of Bankers.

Joanne Ward
Executive Assistant

Joanne joined the team in December 2016 and is responsible for providing executive administrative support to the CEO and the investment team. Joanne has over 15 years' experience supporting senior management teams and coordinating projects across diverse working cultures.

[1] Team members that joined before 1 November 2014 were part of the Departments for Business, Innovation and Skills or Capital for Enterprise Limited, as part of the British Business Bank set-up team.

Overview

15
portfolio investments

£1.2bn
committed

£706m
invested

168
businesses supported as of 31 March 2017

The UK government was one of the early investors in direct lending funds, providing capital to qualified alternative lenders in the aftermath of the financial crisis at a time when the major banks had scaled back lending. Since then we have closely monitored the growth and performance of the resulting portfolio of loans which has been successful in producing both a steady yield and significant capital repayments at a level above our original forecasts.

As liquidity has returned to the mid-cap market, we have focused our efforts on supporting established as well as emerging managers raising funds that lend to smaller, generally higher growth, companies with revenues of up to £100 million. These funds are run by experienced management teams that use a range of debt instruments, including senior loans, unitranche facilities, mezzanine capital and venture debt, that provide funding solutions for a broad range of companies with very different capital profiles.

Direct Lending

"Direct Lending has now gained market acceptance as an alternative source of capital for small and medium sized businesses."

Richard Coldwell
Director

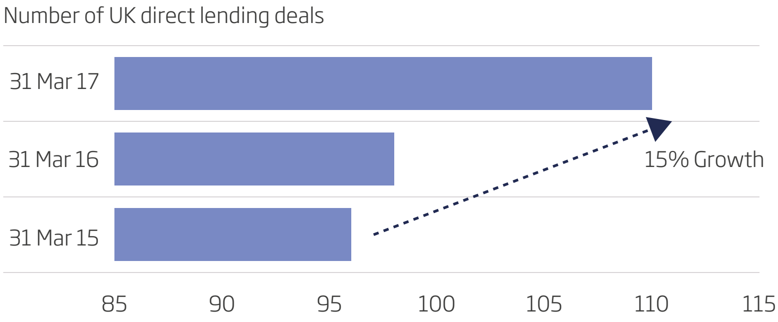
During the financial year we invested in three private debt funds. These included investment in a newly-launched debt fund as well as two existing funds where we increased out capital commitment to reach an optimal size.

Going forward we have a strong pipeline of opportunities and envisage that direct lending will continue to be a core part of our investment strategy.

Partners

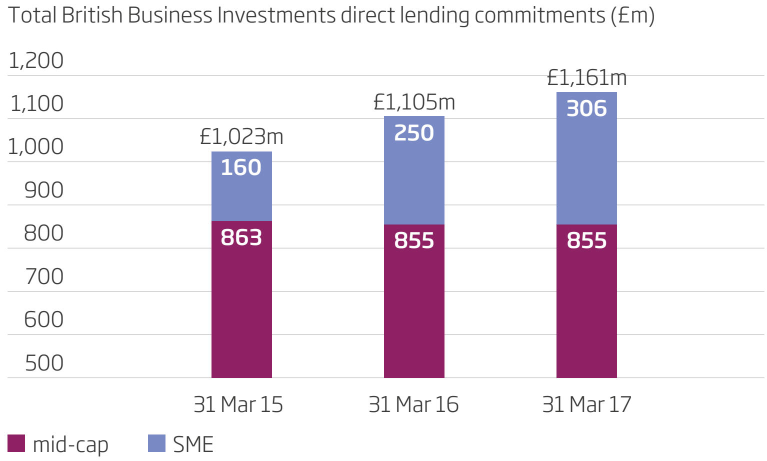
Alcentra
M&G Investments
HAYFIN
ICG
Pricoa Capital Group
ARES
Muzinich & Co
BOOST&Co
BEECHBROOKcapital
Præsidian capital
European Capital

UK direct lending deal count continues to grow

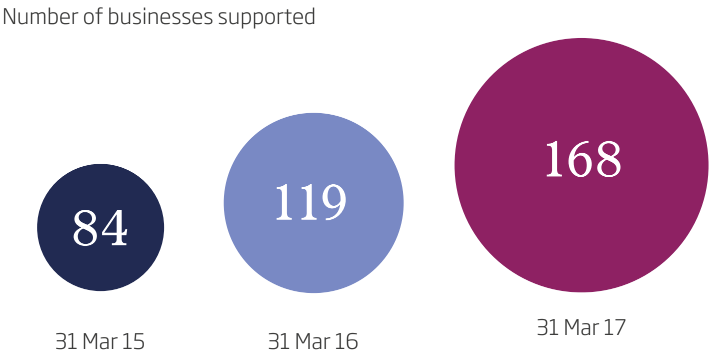


Source: Deloitte Alternative Lender Deal Tracker 1Q 2017

British Business Investments growing commitments



British Business Investments growing lending portfolio



Structured Capital Solutions

Overview

9
portfolio investments

£205m
committed

£110m
invested

6,358
businesses supported as of 31 March 2017

"We are able to develop flexible, tailored solutions that unlock real growth for our partners and provide significant additional funding for smaller businesses in the UK."

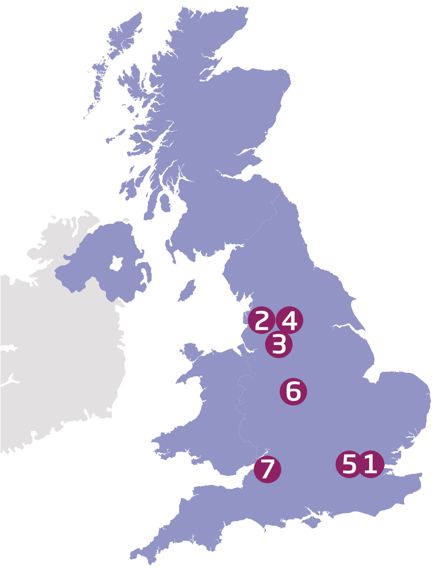
Adam Kelly
Director

Through our continued engagement with the market we have developed a strong understanding of the dynamics impacting both asset finance providers and challenger banks. As a result we have structured and delivered capital solutions directly to qualified market participants to help address the access to capital constraints faced by these partners. This has enabled them to on-lend in greater volume to a large number of smaller businesses throughout the country.

During the financial year we provided a Tier two capital facility to a recently licensed challenger bank. This provides a valuable addition to its existing regulatory capital base and can be drawn upon in a flexible manner so as to be calibrated with the growth in its underlying business lending.

Separately we also provided a combination of senior debt funding and mezzanine capital to two asset finance providers that will enable them to accelerate the growth of their lending books, in a prudent and capital-efficient way. Asset finance is an important source of funding for smaller businesses in the UK representing just over £30 billion of new business lending in 2016, according to data provided by the Finance & Leasing Association.

We are continuing our support for both challenger banks and asset finance providers with several promising opportunities in the pipeline.



Asset Finance providers

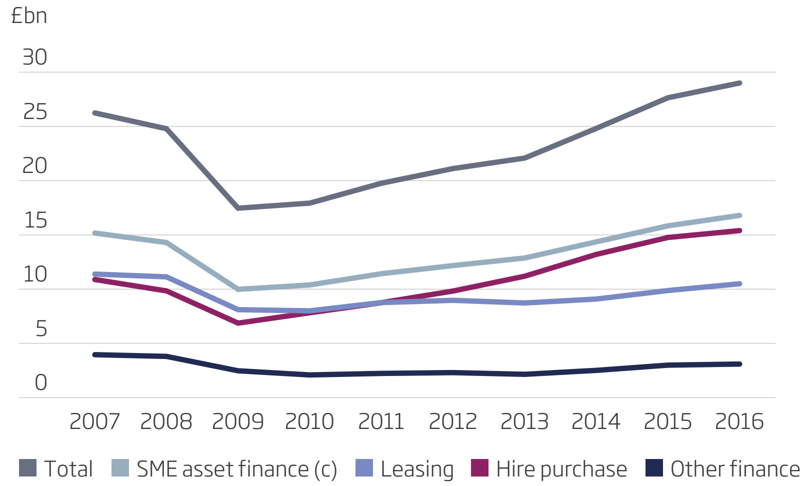
1. Credit Asset Management Limited
   London
2. Haydock
   Blackburn
3. Kingsway
   Wilmslow
4. Praetura
   Blackburn
5. Private and Commercial Finance
   London
6. Shire
   Tamworth
7. UFG
   Bristol

Partners

Haydock Finance, CAML, Kingsway Asset Finance Ltd, Shire Leasing, Private & Commercial Finance, Ultimate finance group, Shawbrook Bank, Atom bank, Praetura Asset Finance

Size of UK asset finance market for businesses 2007-2016

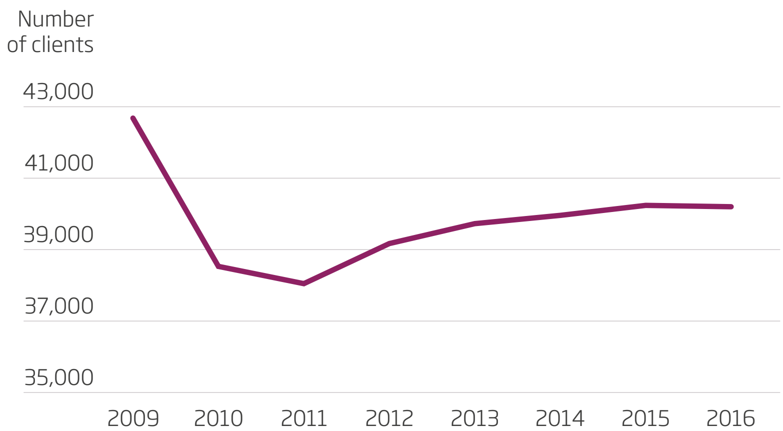
(a)(b)



Source: Finance & Leasing Association (FLA)

a. Asset finance new business for deals of up to £20 million.
b. 2016 estimates based on actual figures up to November 2016.
c. 2007-2011 SME figures estimated as 60% of total asset finance new business excluding high value transactions of £20 million or more and public sector finance.

Number of smaller businesses using asset based finance in the UK



Source: Asset Based Finance Association (ABFA)

FinTech

Overview

5
portfolio investments

£135m
committed

£65m
invested

11,275
businesses supported as of 31 March 2017

"FinTech plays an important role in fostering innovation and enhancing competition in UK finance markets, becoming a growing source of funding for smaller businesses."

Marilena Ioannidou
Director

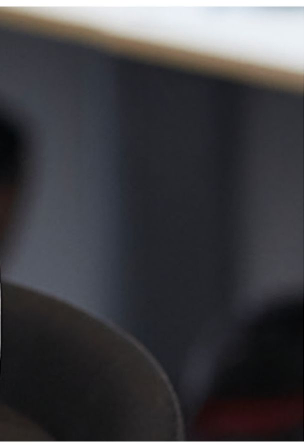
The FinTech alternative lending sector has grown significantly over the last few years, with annual origination volumes currently in excess of £2 billion spread across business lending, property lending, invoice finance and merchant cash advance.

Our first investments date back to 2013 when the sector was in its infancy. We continue to see strong alignment with our own objectives in supporting the ongoing development of this sector, which provides a deeper and a more diversified pool of funding sources for smaller businesses.

Lenders continue to evolve rapidly as business models develop and products are adopted by the market, providing smaller businesses with a wider variety of flexible, affordable and more tailored financial solutions. During the year we have committed a further £40 million to one of our existing peer-to-peer partners, providing ongoing institutional capital on the platform in support of lending growth.

We provide additional support to the FinTech sector through our investment in a number of venture capital funds. Our VC Catalyst funds have provided early stage equity of £30 million to eight FinTech companies across a diverse range of industry verticals.

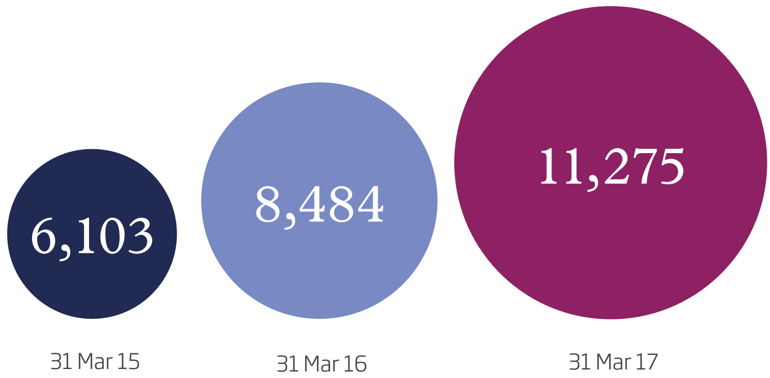
We continue to actively engage with market participants, seeking appropriate investment opportunities in this high growth sector.



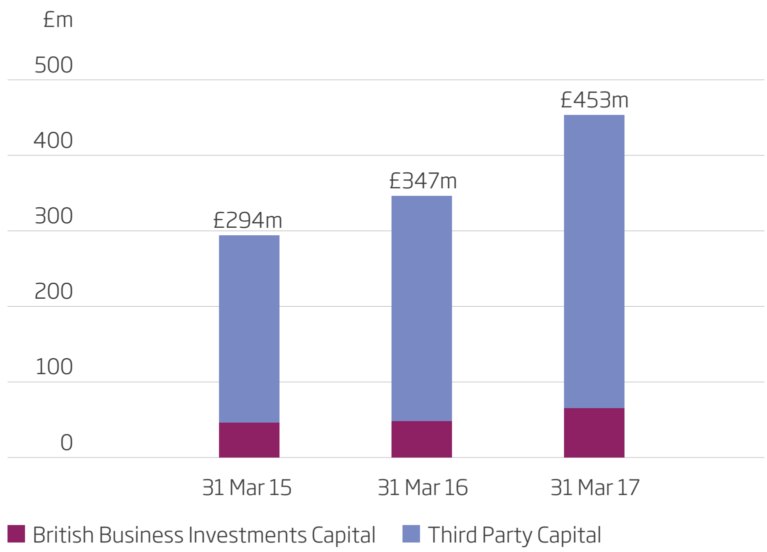
Partners

RateSetter
marketinvoice
Funding Circle
Liberis
URICA

Number of businesses supported



Funding supported through our FinTech partners



Overview

9
portfolio investments

£78m
committed

£26m
invested

24
UK businesses supported as of 31 March 2017

Our VC Catalyst programme was established in 2013 to address a recognised gap in the UK institutional investor base for venture capital funding. We invest in commercially viable funds either to achieve a first close, after which point other investors may be ready to step in, or to achieve an optimal fund size that will allow the manager to effectively execute the planned investment strategy.

By the end of the financial year we had made commitments of £78 million to nine venture capital funds. These funds collectively raised over £1 billion of total capital that is now being invested across a broad range of technologies encompassing enterprise software, Deep Tech, FinTech, and cyber security as well as life sciences and resource efficiency.

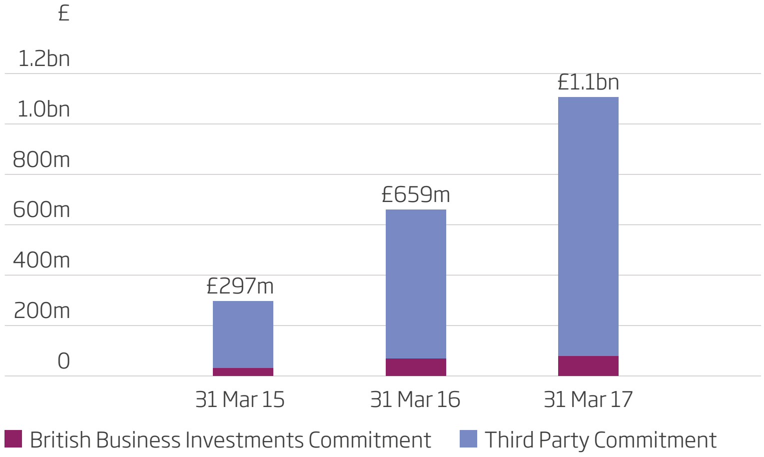
Venture Capital

"We have started to build a diversified portfolio of funds investing across multiple technologies which are bringing long-term capital to companies at different stages of their development."

Christine Hockley
Director

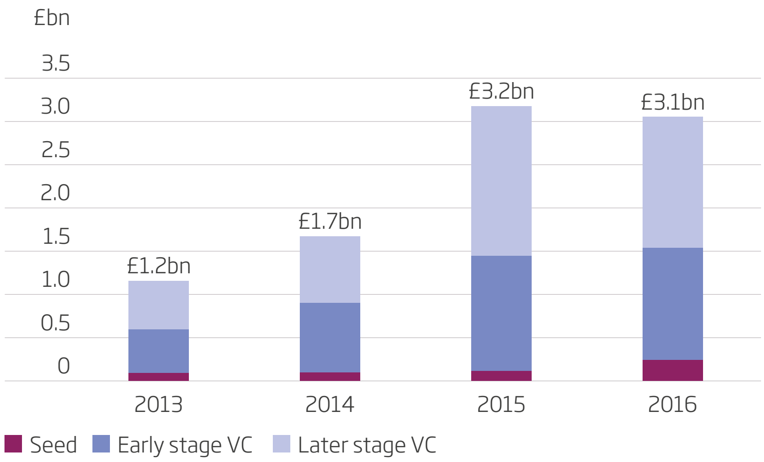
We have been undertaking a major expansion of the VC Catalyst programme. This has been well received by the market as the institutional landscape for VC investment is shifting. This expansion will ensure that we become a more significant investor in venture capital. These funds will be providing the long-term capital necessary to support the most promising early stage businesses of tomorrow as well as continuing to fund ambitious high-growth businesses.

Total amount raised by VC Catalyst-backed Venture Capital funds



Partners

UK Venture Capital investment by stage of investment



Source: PitchBook

The Investment Programme for alternative providers of debt finance

We support providers of all types of debt finance to smaller businesses in the UK with the main aim to promote volume and diversity of lending to SMEs by encouraging new entrants and supporting the growth of alternative lenders in the market.

The Investment Programme is open to applicants that are best able to meet the following four primary objectives:

- Support the development of diverse debt finance markets available to small and medium sized businesses (Diversification).
- Mobilise additional funding from private sector sources in order to support lending to small and medium sized businesses (Leverage).
- Channel finance to small and medium sized businesses in an effective, appropriate and responsible manner (Effective Deployment).
- Expand the aggregate amount and/or types of debt funding available to small and medium sized businesses (Additionality).

Opportunities for partnering

"We are actively seeking new partners with investment strategies that meet our strategic and commercial objectives."

Peter Garnham
Director

The VC Catalyst Programme for investors of venture and growth capital

The objective of the Programme is to support the UK's venture and growth capital infrastructure by investing in commercially viable funds that might otherwise fail to reach an optimal size and where our investment will unlock additional private capital.

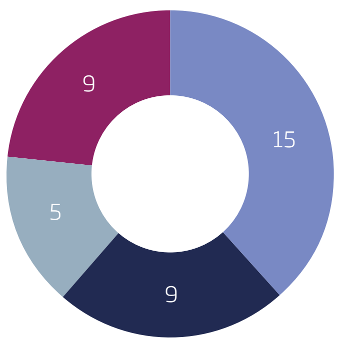
The programme is designed to cover a diverse range of investment strategies both in terms of the technologies, industries and sectors targeted, as well as the stage of investment which spans seed and start-up funding to later stage venture and growth capital. The current portfolio is comprised of companies active in:

- FinTech
- Deep Tech
- Enterprise Software
- Cyber Security
- Resource Efficiency
- Life Sciences

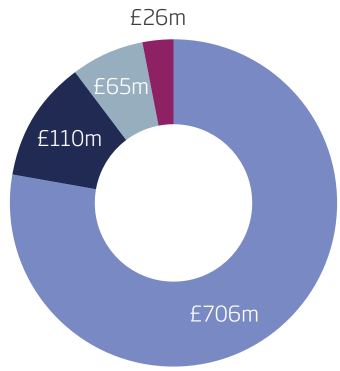
Contacting us

Details of each of the above programmes and more information on how to partner with us is available from bbbinv.co.uk.

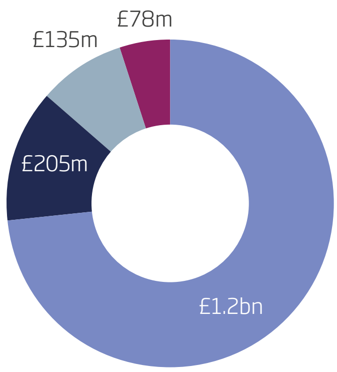
38 partners



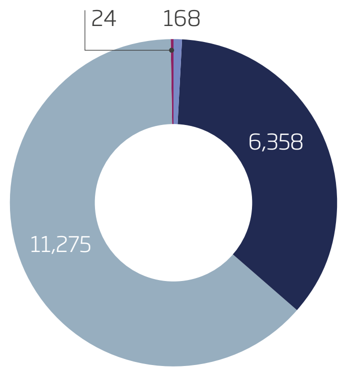
£906m invested



£1.6bn commitments



17,719 businesses supported (1)



(1) Individual businesses

Direct Lending | Structured Capital Solutions | FinTech | Venture Capital

Managing our risks and corporate structure

British Business Investments operates within the Risk Management Framework of the British Business Bank and the Board has separate subcommittees and its own investment committee.

Risk management and internal control

A full description of the Risk Management Framework of the British Business Bank is included within their Annual Report. The main aspects of the framework are:

- A collection of tools, processes and methodologies to identify, assess, monitor and control risks.
- A Risk Appetite Policy which British Business Investments is subject to, however the British Business Investment's Board approves the company's own Risk Appetite Statement.
- Risk governance based on the 'three lines of defence' model.
- A wide range of policies, frameworks and procedures which take account of regulatory or legal requirement and industry best practice.

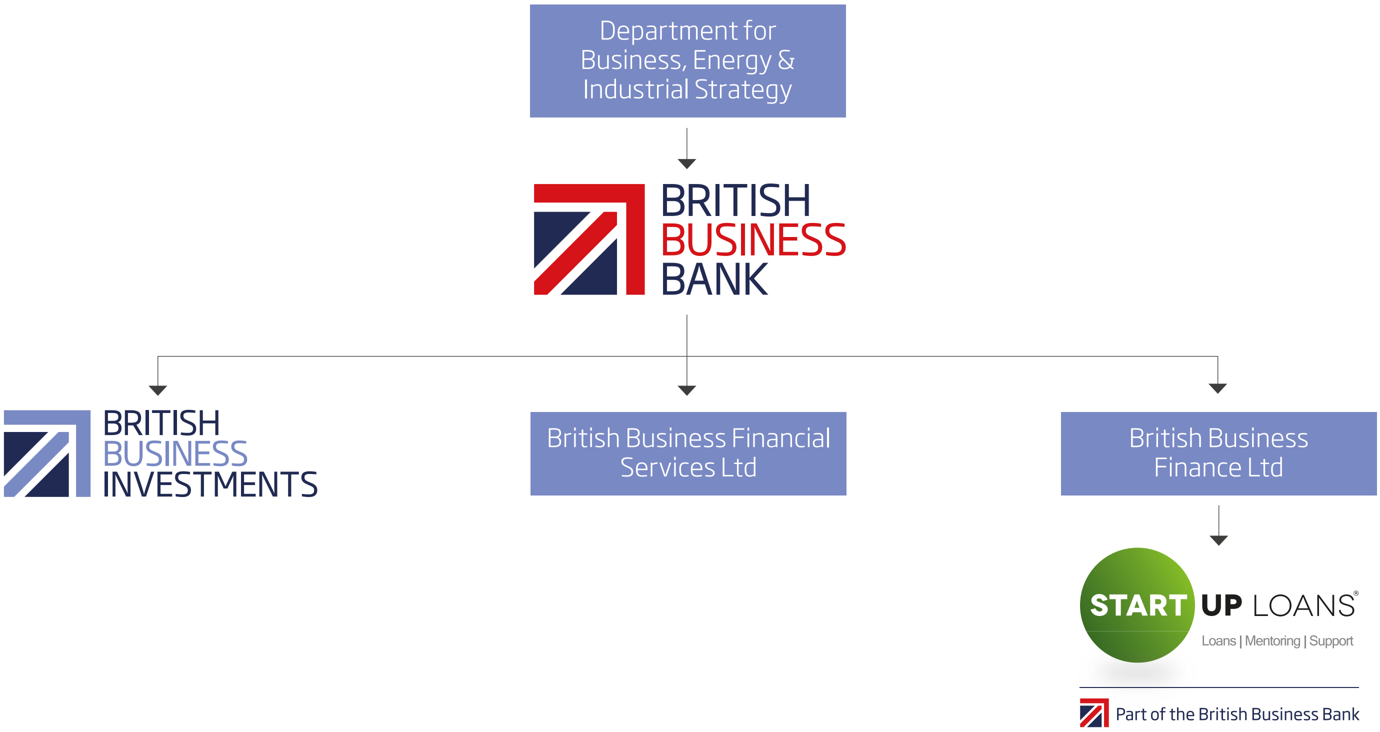
The key operational risks the company is exposed to are:

- Maintaining a suitably qualified investment team and Board to deliver the company's investment strategy
- Ensuring systems and processes support investment decision making, reporting and portfolio management
- Procuring appropriate support across a range of services from the British Business Bank including: finance, legal, risk, IT and marketing.

The key financial risks the company is exposed to are detailed in note 13(iii) of the accompanying financial statements.

Corporate governance

British Business Bank plc is the ultimate parent of British Business Bank Investments Limited and the policies and procedures that apply to the British Business Bank also apply to British Business Investments (the trading name of British Business Bank Investments Limited). The British Business Investment's constitution consists of its Articles of Association and a shareholder relationship framework document between British Business Bank Investments Limited and the British Business Bank plc (the 'Framework Document'). It sets out, among other things, British Business Investment's role within the group including the responsibilities of Board of Directors and the relationship between British Business Investments and the British Business Bank.



The Board of Directors of the Company

The composition of the Board is set out in the Directors' Report on page 24. The Framework Document requires that no more than one-third of the Board may consist of members of the British Business Bank Board. It also provides that the consents of both the British Business Bank and Department for Business, Energy and Industrial Strategy (BEIS) are required prior to the appointment of any new directors to the Board where the appointee is external.

The CEO of the British Business Bank, who is the accounting officer, is the Chair of the Board of British Business Investments. He has direct accountability to British Business Investments ultimate shareholder, BEIS. The responsibilities of an Accounting Officer include responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, keeping proper records and safeguarding British Business Bank Investments assets.

Board Committees

The Board of Directors of British Business Investments has been set up along with Board level committees. These are the Audit and Risk Committee, the Nomination and Remuneration Committee. British Business Investments also has an Investment Committee. To ensure effective decision making there are approved terms of reference for each Committee.

Audit and Risk Committee

The Chair of the Audit and Risk Committee is Francis Small. The Chief Executive Officer of British Business Investments and Chief Finance Officer, Chief Risk Officer, General Counsel and Head of Internal Audit of British Business Bank attend Committee meetings. The Committee also meets privately with both internal and external audit.

Nomination and Remuneration Committee

The Chair of the Nomination and Remuneration Committee is Keith Morgan. The other member is Sara Halbard. The Committee meets on an ad hoc basis to consider remuneration, staffing matters and the nominations.

Investment Committee

The Chair of the Investment Committee is Keith Morgan. The other members of the Committee are Catherine Lewis La Torre, Francis Small and Sara Halbard. The Chief Risk Officer, the Chief Finance Officer and the General Counsel of British Business Bank acting in their capacity as approvers on behalf of British Business Investments are required to attend all meetings.

Catherine Lewis La Torre
Chief Executive Officer

5 September 2017

Directors' report

The directors present their Annual Report on the affairs of the company, together with the financial statements and auditor's report, for the period ended 31 March 2017.

The following information required by the Companies Act 2006 can be found in the following sections of the Annual Report, which are incorporated by reference into this report:

- A description of the principal activities of the company during the course of the period, an indication of likely future developments in the business and the key operational and financial risks the company is exposed to are all included in the Strategic Report.
- Details of significant events since the balance sheet date are contained in note 17 to the financial statements.
- Information about the use of financial instruments by the company is given in note 13 to the financial statements.

Dividends and reserves

The company paid dividends during the period of £40m. A further dividend of £25m is proposed but not yet recognised in the accounts for the year ended 31 March 2017.

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

Further details can be found in the principal accounting policies notes in the financial statements.

Directors

The directors who held office during the period were as follows:

- Keith Morgan (appointed 23 July 2014) – Chairman
- Fiona-Jane MacGregor (appointed 30 October 2014)
- Paula Crofts (appointed as alternate to Fiona-Jane MacGregor for the period of 15 December 2015 to 20 June 2016)
- Patrick Butler (appointed 13 November 2014 and resigned 31 May 2016)
- Francis Small (appointed 16 June 2016)
- Sara Halbard (appointed 16 June 2016)
- Catherine Lewis La Torre (appointed 15 September 2016) – Chief Executive Officer

British Business Investments has not made any political donations or incurred any political expenditure during the financial year.

Appointment and removal of directors

The Board of directors is responsible for the appointments to the Board and Committees.

Directors' indemnities

The company has granted indemnities to each of its directors in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities as directors to the extent permitted by law and the company's Articles of Association.

Directors' confirmations in relation to the audit

Each of the persons who is a director at the date of approval of this Annual Report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/ herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Approved by the Board of directors

Catherine Lewis La Torre
Chief Executive Officer

5 September 2017

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Under company law the directors are required to prepare the financial statements in accordance with recognised accounting standards. The directors have chosen to adopt International Financial Reporting Standards (IFRSs) as adopted by the European Union which is consistent with the accounting treatment adopted by the parent company. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

By order of the Board

Catherine Lewis La Torre
Chief Executive Officer

5 September 2017

Independent Auditor's Report

To the members of British Business Bank Investments Limited

I have audited the financial statements of British Business Bank Investments Limited for the year ended 31 March 2017 which comprise the Income Statement, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

Respective responsibilities of the directors and the auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2017 and of the profit for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- The information given in the Strategic and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and these reports have been prepared in accordance with the applicable legal requirements;
- In light of the knowledge and understanding of the group and the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept by the company, or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit.

Hilary Lower
(Senior Statutory Auditor)

5 September 2017

For and on behalf of the
Comptroller and Auditor General
(Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
Victoria London SW1W 9SP

Financial statements

For the year ended 31 March 2017

Income statement
For the year ended 31 March 2017

	Note	2017 £000	2016 £000
INCOME			
Fair value gain on investment assets designated at fair value through profit or loss	7	59,184	45,145
Arrangement and other fees		1,324	336
Gross operating income		**60,508**	**45,481**
EXPENDITURE			
Staff costs	4.1	(1,099)	(970)
Purchase of goods and services		(1,043)	(1,092)
Management fee	5	(3,275)	(3,408)
Operating expenditure		**(5,417)**	**(5,470)**
Net operating profit before tax		**55,091**	**40,011**
Tax	6.1	(11,481)	(8,002)
Profit for the period		**43,610**	**32,009**

All operations are continuing.

The company has no other recognised gains and losses therefore no separate statement of other comprehensive income has been presented.

An interim dividend of £19m in respect of the period ended 31 March 2017 was declared and paid on 8 February 2017 and a final dividend of £24.61m in respect of that year is proposed and is not recognised in these accounts.

The notes on pages 32 to 46 form an integral part of the financial statements.

Statement of financial position
As at 31 March 2017

	Note	2017 £000	2016 £000
ASSETS			
Non-current assets			
Assets designated at fair value through profit or loss	7	946,098	702,914
Deferred tax asset	6.3	1	1
Total non-current assets		**946,099**	**702,915**
Current assets			
Trade and other receivables	8	169	13,902
Cash and cash equivalents	9	9,579	3,388
Total current assets		**9,748**	**17,290**
Total assets		**955,847**	**720,205**
LIABILITIES			
Current liabilities			
Trade and other payables	10	(4,138)	(5,389)
Corporation tax	6.2	(6,314)	(5,911)
Total current liabilities		**(10,452)**	**(11,300)**
Total assets less current liabilities		**945,395**	**708,905**
Non-current liabilities			
Trade and other payables	10	(21)	–
Total liabilities		**(10,473)**	**(11,300)**
Net assets		**945,374**	**708,905**
Equity			
Issued share capital	11	920,764	687,896
Retained earnings	12	24,610	21,009
Total equity		**945,374**	**708,905**

The financial statements of the company (company number 09091930) were approved by the Board of directors and authorised for issue on 5 September 2017. They were signed on its behalf by:

Catherine Lewis La Torre
Chief Executive Officer

The notes on pages 32 to 46 form an integral part of the financial statements.

Statement of changes in equity
For the year ended 31 March 2017

	Notes	Issued capital £000	Capital contribution reserve £000	Retained earnings £000	Total £000
Balance as at 31 March 2015		490,119	8,777	10,036	508,932
Profit after tax		–	–	32,009	32,009
Total comprehensive income	11	**-**	**-**	**32,009**	**32,009**
Issue of ordinary shares		189,000	–	–	189,000
Capital contribution converted to share capital	12	8,777	(8,777)	–	0
Dividends		–	–	(21,036)	(21,036)
Balance at 31 March 2016		**687,896**	**-**	**21,009**	**708,905**
Balance at 31 March 2016		**687,896**	**-**	**21,009**	**708,905**
Profit after tax		–	–	43,610	43,610
Total comprehensive income		–	–	43,610	43,610
Issue of ordinary shares	11	232,868	–	–	232,868
Dividends	16	–	–	(40,009)	(40,009)
Balance at 31 March 2017		**920,764**	**-**	**24,610**	**945,374**

Cash flow statement
For the year ended 31 March 2017

	Notes	2017 £000	2016 £000
Profit before tax		**55,091**	**40,011**
Cash flows from operating activities			
Adjustments for:			
Net gain on investment assets	7	(59,184)	(45,145)
Corporation tax paid	6.2	(11,078)	(5,854)
Decrease/(increase) in trade and other receivables	8	13,733	(13,134)
(Decrease)/increase in trade and other payables	10	(1,230)	2,923
Net cash used in operating activities		**(2,668)**	**(21,199)**
Cash flows from investing activities			
Financial assets transferred from HMG	7	–	(36,437)
Investments in financial assets	7	(293,727)	(216,931)
Repayment of assets designated at fair value through profit or loss	7	109,727	93,948
Net cash used in investing activities		**(184,000)**	**(159,420)**
Cash flows from financing activities			
Issue of new shares[1]	11	232,868	189,000
Dividends paid to shareholder[1]	16	(40,009)	(21,036)
Net cash from financing activities		**192,859**	**167,964**
Net increase in cash and cash equivalents		**6,191**	**(12,655)**
Cash and cash equivalents at beginning of the year		3,388	16,043
Cash and cash equivalents at end of the year		**9,579**	**3,388**

[1]The payment of dividends to the shareholder was funded by the issue of new shares and these two transactions were settled on a net basis.

The notes on pages 32 to 46 form an integral part of the financial statements.

Notes to the financial statements

As at 31 March 2017

1. General information

British Business Bank Investments Ltd (the Company) is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is Foundry House, 3 Millsands, Sheffield, S3 8NH. The nature of the company's operations and its principal activities are set out in the Strategic Report on pages 6 to 23.

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements are prepared in accordance with IFRS and Interpretations in force at the reporting date.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and non-financial assets that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The principal accounting policies adopted are set out below.

The company is classified as an investment company under IFRS 10 and shows investments at fair value through profit and loss (FVTPL). The Directors have decided that this is the correct classification having determined that it meets the three criteria required under IFRS 10 in that the Company:

– Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
– Its aim is to earn a commercial return through its investments;
– It measures the performance of substantially all of its investments on a fair value basis.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position are set out in the Strategic Report on pages 6 to 23.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. In arriving at that view they have assumed that in the event of a downturn the parent company and the ultimate controlling party, the Secretary of State for the Department for Business, Energy and Industrial Strategy, will continue to support the Company. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Adoption of new and revised Standards

There were no new or amended standards applied for the first time and therefore no restatements of the previous financial statements required.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

– *IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions;*
– *IFRS 9 Financial Instruments;*
– *IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;*
– *IFRS 14 Regulatory Deferral Accounts;*
– *IFRS 15 Revenue from Contracts with Customers;*
– *IFRS 16 Leases;*
– *Annual Improvements to IFRSs 2014 – 2016 Cycle;*
– *IAS 7 (amendments) Statement of Cash Flows;*
– *IAS 12 (amendments) Recognition of Deferred Tax Assets for Unrealised Losses;*
– *IAS 40 (amendments) Transfers of Investment Property;*
– *IFRIC 22 Foreign Currency Transactions and Advance Consideration.*

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the company in future years, except that IFRS 9 will impact the disclosures of financial instruments. During the year, the Directors have determined the company will adopt IFRS 9 for the year ending 31 March 2019 and are in the process of undertaking a detailed review of the impact of the Standard. Until this detailed review has been completed it is not possible to provide a reasonable estimate of the effect on the Company's financial statements.

Income recognition

Income is measured as the change in fair value of the investment portfolio, adjusted for any additional investments or disposals plus any consideration received or receivable for goods and services provided in the normal course of business, net of discounts, Value Added Tax (VAT) and other sales-related taxes.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the tax is also recognised in other comprehensive income or directly in equity respectively.

VAT is accounted for in the results, in that amounts are shown net of VAT except:

- Irrecoverable VAT is charged to the Income Statement, and included under the relevant expenditure heading;
- Irrecoverable VAT on the purchase of an asset is included in additions.

The net amount due to, or from, HM Revenue and Customs in respect of VAT is included within payables and receivables on the Statement of Financial Position.

Financial instruments

(i) Classification

The company has designated its investments on initial recognition as financial assets at fair value through profit or loss.

Financial assets that are not at fair value through profit or loss include cash and cash equivalents and other receivables which are accounted for as loans and receivables. Financial liabilities that are not at fair value through profit or loss include short term financing and other payables which are accounted for as liabilities held at amortised cost.

(ii) Recognition

The company initially recognises financial assets or liabilities on the trade date at which it becomes a party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the instruments are recognised in the Income Statement.

(iii) Measurement

Financial instruments are measured initially at fair value. For financial assets acquired, cost is the fair value of the consideration paid, while for financial liabilities fair value is equal to the consideration paid. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Income Statement. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

De-recognition of financial assets

The company de-recognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. The only financial liabilities held by the company are trade and other payables.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and other financial institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

Foreign exchange

The company applies IAS 21 The Effects of Changes in Foreign Exchange Rates and transactions that are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for a period is used. Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are retranslated at the rates of exchange ruling at that date.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Employee benefits

In accordance with IAS 19 Employee Benefits, the company recognises short term employee benefits when an employee has rendered service in exchange for those benefits.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience, industry standard practice and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects current and future periods.

The estimates and assumptions that risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- Fluctuations in the fair values of assets designated as at fair value through profit or loss, where reported net asset values and other valuation models and techniques are used to determine estimated future cash flows, and include a number of other assumptions;
- Directors' judgements with regard to the impairment of assets.

4. Staff numbers, staff costs and directors' remuneration

4.1 Staff numbers and staff costs

The average monthly number of employees (including executive directors) was:

	2017 Number	2016 Number
Permanent staff	10	10
Total	**10**	**10**

	2017 £000	2016 £000
Aggregate remuneration comprised		
Wages and salaries – permanent staff	770	726
Wages and salaries – temporary and agency staff	8	6
Short and Long-Term Incentive Plans and bonus scheme	109	54
Social security costs	106	104
Pension costs	106	80
	1,099	**970**

The Company's three incentive plans (long-term Incentive Plan, the short-term Incentive Plan and the annual bonus scheme) are managed on a group-wide basis by the British Business Bank plc. Further details are set out in the British Business Bank's annual report and accounts.

4.2 Directors' remuneration

This note refers to the Directors of the company who have been appointed at Companies House.

Directors' remuneration during the year was £198,000 (2016: £165,000). Remuneration for the highest paid director during the year was £158,000 (2016: £140,000).

Executive Directors' remuneration

Catherine Lewis La Torre received salary of £122,000 (the annual equivalent being £210,000 p.a.). In addition she received pension contributions of £12,000 and taxable benefits equivalent to £nil. She also participates in the British Business Bank plc Long Term Incentive Plan (LTIP) and in the year under review was granted awards with a maximum potential value of £24,000. Any payments made under the LTIP will be determined by the Remuneration Committee at their discretion and are dependent on personal and corporate performance over a three-year period ending 31 March 2019.

Non-executive Directors' remuneration

Non-executive Directors' remuneration for 2016 and 2017 (£000) is made up as follows:

	2017		2016
	Total fees	Annual equivalent	Total fees
Keith Morgan	–	–	–
Fiona-Jane MacGregor	–	–	–
Paula Crofts (resigned 20 June 2016)	–	–	–
Patrick Butler (resigned 31 May 2016)	4	25	25
Sara Halbard (appointed 16 June 2016)	16	20	n/a
Francis Small (appointed 16 June 2016)	20	25	n/a
Totals	**40**	**70**	**25**

Fees for services as Director of the company are £20,000 per annum. In addition a fee of £5,000 per annum is paid to the chair of the Company's audit and risk committee.

Keith Morgan is paid directly by the Company's parent company and costs of services provided by British Business Bank plc are recharged to the company in the form of a management charge.

Fiona-Jane MacGregor and Paula Crofts are paid by the Department for Business, Energy and Industrial Strategy (BEIS). Fiona-Jane MacGregor returned from maternity leave during the year and therefore Paula Crofts stepped down from the Board. The cost of services are not recharged to the Company.

No post-employment benefits, termination benefits or share based payments were made to Directors in the year (2016: none).

5. Operating costs

Purchase of goods and services

Auditor's remuneration of £42k (2016: £49k), which is included within 'Purchase of goods and services' relates to fees payable for the audit of the Company's annual accounts. The Company's auditors did not provide any non-audit services.

	2017 £000	2016 £000
Management Fee		
Allocated staff costs	2,338	2,364
Allocated purchase of goods and services	937	1,044
Total	**3,275**	**3,408**

Allocated staff costs and allocated purchase of goods and services relates to recharges paid by the company to its parent, the British Business Bank plc for the shared services provided. Allocated staff costs include an allocation of the parent company's legal, financial, IT, risk management, corporate services, communications, and senior management costs.

Transactions and movements 2016/17

	Balance at 31 March 2016 £000	Additions £000	Repayment £000	Revaluation £000	Balance at 31 March 2017 £000
BFP Mid Cap	499,641	124,716	(71,233)	33,948	587,072
BFP Small Cap	39,741	8,214	(11,060)	3,253	40,148
Investment Programme	148,503	151,327	(27,375)	16,901	289,356
VC Catalyst	15,029	9,470	(59)	5,082	29,522
Total	**702,914**	**293,727**	**(109,727)**	**59,184**	**946,098**

Transactions and movements 2015/16

	Balance at 31 March 2015 £000	Additions £000	Acquisitions From HM Government £000	Repayment £000	Revaluation £000	Balance at 31 March 2016 £000
BFP Mid Cap	426,029	112,837	–	(72,040)	32,815	499,641
BFP Small Cap	28,469	10,775	8,289	(11,735)	3,943	39,741
Investment Programme	38,487	83,530	28,148	(9,774)	8,112	148,503
VC Catalyst	5,364	9,789	–	(399)	275	15,029
Total	**498,349**	**216,931**	**36,437**	**(93,948)**	**45,145**	**702,914**

Capital commitments

The company had the following undrawn commitments at the balance sheet date in relation to its existing investment portfolio:

	2017 £000	2016 £000
BFP Mid Cap	283,885	222,451
BFP Small Cap	9,786	11,971
Investment Programme	282,236	256,782
VC Catalyst	58,874	54,609
	634,781	**545,813**

7. Investments

All of the Company's investments have been designated at fair value through the profit or loss. This note provides further details on each investment and its value at the balance sheet date.

Business Finance Partnership

The company manages the Business Finance Partnership (BFP) programme.

The Business Finance Partnership has two strands. The first strand is the BFP Mid Cap which invests in funds, or funds managed by fund managers on commercial terms alongside private sector investors which are focussed on lending to medium-sized businesses operating in the UK with turnover of up to £500 million.

The second strand is the BFP Small Cap Tranche which invests in debt funds and non-bank lenders on commercial terms alongside private sector investors that provide an alternative source of lending for small businesses operating in the UK with turnover up to £75 million.

Through an invoice discount firm, British Business Bank Investments Ltd purchases invoices from investors, releasing money that would otherwise be tied up for between 30 and 120 days. It also provides funding through peer to peer lending platforms making small part-loans to borrowers alongside other platform lenders.

Investment Programme

The company manages the Investment Programme. It makes commercial investments that stimulate at least the same amount of investment from the private sector, encouraging new lenders in to the SME finance market and the growth of smaller lenders. As with the BFP Small Cap this programme has provided invoice discount finance participated in peer to peer lending and in addition provided other credit facilities

British Business Bank Investments Ltd participated in a public issue of Tier 2 capital by Shawbrook Bank plc which issued fixed rate reset callable subordinated loan notes with an initial semi-annual coupon of 8½%. The issue was listed on the London Stock Exchange on 28th October 2015.

VC Catalyst

The VC Catalyst programme invests in commercially viable venture capital funds that might otherwise fail to reach a satisfactory 'first close', after which point other investors may be ready to step in, or to archive an optimal fund size that will allow the manager to effectively execute the planned investment strategy. It enables private sector investment already committed to those funds to be unlocked and invested in growth companies.

Assets designated at fair value through profit or loss

The designation of financial assets as at fair value through profit or loss is consistent with the Company's documented risk management and investment strategy. The Company's investment asset portfolio is managed and its performance is evaluated by the Company's key management personnel on a fair value basis.

6. Taxation

6.1 Tax expense

	2017 £000	2016 £000
Current tax expense		
Current year	11,018	7,986
Adjustment in respect of prior year	463	–
Total current tax expense	11,481	7,986
Deferred tax expense		
Current period	–	16
Total deferred tax expense	–	16
Total tax expense	**11,481**	**8,002**

Current corporation tax

Corporation tax is calculated at 20% (2016: 20%) of the estimated taxable profit for the year. The table below reconciles the current tax expense for the year:

	2017 £000	2016 £000
Net operating profit before tax	55,091	40,011
Tax at standard rate of corporation tax in the UK of 20% (2016 – 20%)	11,018	8,002
Adjustment in respect of prior year	463	–
Short term timing differences relating to profit related pay	–	(16)
Total current tax expense	**11,481**	**7,986**

Deferred corporation tax

A deferred tax rate of 17% has been used for 2017 (2016: 18%). This is on the basis that the timing differences are likely to unwind when the rate of corporation tax is due to have fallen to this level.

The deferred tax income is entirely due to short term timing differences.

6.2 Corporation tax payable

	2017 £000	2016 £000
Corporation tax payable at 31 March 2016	5,911	3,779
Tax expense for the year	11,481	7,986
Tax paid	(11,078)	(5,854)
Corporation tax payable at 31 March 2017	**6,314**	**5,911**

6.3 Deferred tax asset

	2017 £000	2016 £000
Deferred tax asset at 31 March 2016	1	17
Movement in the year	–	(16)
Deferred tax asset at 31 March 2017	**1**	**1**

8. Trade and other receivables

	2017 £000	2016 £000
Amounts receivable within one year		
Trade receivables	25	13,802
Amounts owed by group undertakings	144	100
	169	**13,902**

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. The trade receivables balance at 31 March 2016 included £12.3m of cash in transit that had been paid to acquire assets but where the cash had not been received by the counterparty.

There were no amounts which are past due at the reporting date. No impairment was recognised against the trade and other receivables as at the reporting date.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

9. Cash and cash equivalents

	2017 £000	2016 £000
Held with the Government Banking Service	3,298	1,286
Held in commercial bank accounts	6,281	2,102
	9,579	**3,388**

10. Trade and other payables

	2017 £000	2016 £000
Amounts falling due within one year		
Trade payables	3	4
VAT and social security	24	410
Accrued expenditure	391	343
Amounts owed to group undertakings	3,572	4,158
Other payables	148	474
	4,138	**5,389**
Amounts falling due after more than one year		
Accrued expenditure	21	–
	21	**-**

The Directors consider that the carrying amount of trade payables approximates to their fair value.

11. Share capital

	2017 No.
Authorised: ordinary shares of £1 each	**920,764,280**

	2017 £000
Issued and fully paid ordinary shares of £1 each:	
At 31 March 2015	490,119
Shares issued for cash	189,000
Capital contribution reserve converted to share capital	8,777
At 31 March 2016	**687,896**
Shares issued for cash	232,868
At 31 March 2017	**920,764**

The company has one class of ordinary shares which carry no right to fixed income.

12. Reserves

2016/17

	Retained earnings £000
Opening balance 31 March 2016	21,009
Dividends paid	(40,009)
Profit for the year	43,610
Balance at 31 March 2017	**24,610**

2015/16

	Capital contribution reserve £000	Retained earnings £000
Opening balance 31 March 2015	8,777	10,036
Capital contribution reserve converted to share capital	(8,777)	–
Dividends paid	–	(21,036)
Profit for the year	–	32,009
Balance at 31 March 2016	**-**	**21,009**

13. Financial instruments

(i) Categories of financial instruments

The following table analyses the Company's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 Financial Instruments, Recognition and Measurement. Assets and liabilities outside the scope of IAS 39 are shown separately.

At 31 March 2017

	Note	Assets held at FVTPL £000	Loans and receivables £000	Liabilities held at amortised cost £000	Non-financial assets and liabilities £000	Total £000
Assets						
Designated at FVTPL	7	946,098	–	–	–	946,098
Trade and other receivables	8	–	169	–	–	169
Deferred tax	6	–	–	–	1	1
Cash and cash equivalents	9	–	9,579	–	–	9,579
Total assets		**946,098**	**9,748**	**-**	**1**	**955,847**
Liabilities						
Trade and other payables	10	–	–	(4,159)	–	(4,159)
Corporation tax	6	–	–	–	(6,314)	(6,314)
Total liabilities		–	–	**(4,159)**	**(6,314)**	**(10,473)**
Net assets		**946,098**	**9,748**	**(4,159)**	**(6,313)**	**945,374**

At 31 March 2016

	Note	Assets held at FVTPL £000	Loans and receivables £000	Liabilities held at amortised cost £000	Non-financial assets and liabilities £000	Total £000
Assets						
Designated at FVTPL	7	702,914	–	–	–	702,914
Trade and other receivables	8	–	13,902	–	–	13,902
Deferred tax	6	–	–	–	1	1
Cash and cash equivalents	9	–	3,388	–	–	3,388
Total assets		**702,914**	**17,290**	**-**	**1**	**720,205**
Liabilities						
Trade and other payables	10	–	–	(5,389)	–	(5,389)
Corporation tax	6	–	–	–	(5,911)	(5,911)
Total liabilities		**-**	**-**	**(5,389)**	**(5,911)**	**(11,300)**
Net assets		**702,914**	**17,290**	**(5,389)**	**(5,910)**	**708,905**

(ii) Fair value measurements

The investment portfolio consists of assets designated at fair value through profit or loss where fair value is measured on a recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

The Company has designated certain investments that are classified under IAS 39 as loans and receivables as at fair value through profit or loss. The amount of loans and receivables designated as at fair value through profit or loss at the year end is £138m (2016: £73m). The Company at year end holds collateral of £52m which reduces the exposure to credit risk to £86m.

For all investment assets, the investment valuation, a net asset valuation (NAV), which is determined by investment managers on a fair value basis or is determined by quoted prices in an active market.

The Directors review the investment valuation reports periodically and are satisfied with the year-end valuations presented in the financial statements.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Income Statement. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets;

Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined by the lowest level input that is significant to the fair value measurement in its entirety.

The company has one Investment Programme investment that is considered to be level 1. This is an investment in fixed rate reset callable subordinated loan notes with an initial semi-annual coupon of 8½% issued by Shawbrook Bank plc.

For the period covered by these accounts all other financial investments are considered level 3. Financial instruments classified within level 3 have significant unobservable inputs and include term loans and investments in private funds. As observable prices are not available for these financial instruments, the company has applied the following valuations.

- Investments in third party private debt funds and venture capital funds are valued based on the net asset value reported by the fund manager for the relevant date provided the valuation approach is recognised as industry standard for example International Private Equity and Venture Capital Association (IPEVCA) guidelines.
- Loans are valued at their par value, plus any accrued but unpaid interest, less any adjustments deemed appropriate.

(iii) Financial risk management

The company has exposure to a number of financial risks through the conduct of its operations.

This note presents information about the nature and extent of risks arising from the financial instruments.

The company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk

Liquidity risk is not deemed relevant for the Company.

Credit risk

Credit risk is the risk of a loss due to the failure of a counterparty of a financial instrument to meet its obligations to pay the company in accordance with agreed terms, or due to the risk of loss due to inappropriate investment decisions. Credit risk also includes settlement risk when a counter party fails to settle their side of a transaction and concentration risk. The Company's credit risk is also influenced by general macroeconomic conditions.

Credit risk may arise in any of the Company's assets where there is the potential for default which includes the investments with a contractual repayment.

The degree to which the company is exposed to credit risk depends on the individual characteristics of the contract counterparty and the nature of the investment. The amount of exposure, before taking into account any collateral or security, in each class of financial asset is limited to the amount invested at any given point in time. At 31 March 2017, the Company holds collateral for £52 million of investments in the Investment Programme.

For some debt investments appropriate collateral is held. The nature of collateral may change over time depending on the investments which the company holds in any given period. The concentration of credit risk is limited due to the investment base being large and spread across the Company's operating segments. Accordingly, the Directors believe that there is no further credit provision required in excess of the provision for impairment losses and the specific provision for credit losses detailed below.

Credit risk assessment is carried out as part of the investment approval process and is revisited on an ongoing basis as part of the Company's portfolio management process.

In determining fair value the company has made provision against the value of certain investments, those being receivables purchased through an invoice discounter and part-loans to borrowers that are made alongside other platform lenders, in accordance with its provisioning policy. The basis of provisioning is different for the different categories of investments. In determining the recoverability of the amounts receivable, the company considers past performance of recoveries.

With respect to receivables purchased through an invoice discounter the company provides for all debts which are overdue by 90 days at a rate of 100% of the average overdue balance over the previous three months. In addition it makes 100% provision for all receivables in respect of which there is a known or expected problem in collection even if payment is not overdue by 90 days. At 31 March 2017 the gross value of receivables purchased through an invoice discounter was £4.3m of which £222,000 was overdue and fully provided.

The company makes provision for all part-loans made to borrowers made alongside other platform lenders which are overdue by 90 days at a rate of 100%. At 31 March 2017 the gross value of such receivables was £50.7m of which £2,596,000 was overdue by 90 days and fully provided.

No other repayments in respect of the Company's financial instruments were overdue at the balance sheet date.

Market risk

Market risk is the risk of a loss of earnings or economic value due to adverse changes in financial market prices, such as interest rates, foreign exchange rates or equity prices.

The company will identify market risk arising from an inability to exit an investment within the intended time frame.

Interest rate risk

The company's investments include a combination of fixed and variable rate loans. Interest rate risk is regularly monitored to ensure that the mix of variable and fixed rate borrowing is appropriate. The company does not use derivatives to hedge interest rate risk.

LIBOR sensitivity of the investments is as follows:

- The impact of a 1 percentage point increase in the interest rate applicable to company investments would be an approximate increase in income of £8m over a one year period.
- The impact of a 0.25 percentage point decrease in the interest reference rate applicable to investments would be an approximate decrease in income of £1m over a one year period. Larger decreases would be mitigated by a significant element of LIBOR floors.

Currency risk

The company does not have material exposure to currency risk as the company primarily invests in its functional currency, pounds sterling. There are some investments in funds which have a Europe-wide investment mandate, and are denominated in Euros. A prerequisite of these funds is that they invest into the UK at a fund level a larger amount than our financial investment. Less than 6% of the company's portfolio is in non-GBP denominated investments. There is currently no policy to hedge this currency risk.

Liquidity risk

Liquidity risk is the risk that an entity does not have sufficient financial resources in the short term to meet its obligations as they fall due, or its strategy is constrained by inadequate or inappropriate funding sources.

Liquidity risk is not deemed significantly relevant to the company as it is part of the British Business Bank plc group which is 100% Government funded, with all programmes pre-approved and committed to, and it does not have a leveraged balance sheet.

14. Related party transactions

There were no operational transactions with related parties during the year other than companies within the British Business Bank plc group. British Business Bank Investments Limited entered into transactions with the following group companies:

	2017 £000	2016 £000
Income		
British Business Financial Services Limited	–	100
	-	**100**

Expenditure		
British Business Bank plc	3,154	3,408
British Business Finance Limited	121	125
	3,275	**3,533**

Amounts outstanding at year end

As at the balance sheet date, British Business Bank Investments Limited had debts outstanding and receivable with the following group companies:

	2017 £000	2016 £000
Receivable		
British Business Financial Services Limited	100	100
British Business Bank plc	44	–
	144	**100**

	2017 £000	2016 £000
Payable		
British Business Bank plc	2,503	4,148
British Business Finance Limited	1,069	10
	3,572	**4,158**

Key management personnel compensation is disclosed in note 4.2

15. Significant undertakings

British Business Bank Investments Ltd has the following significant holdings in undertakings.

Name	Country in which it is incorporated	Class of share held by the British Business Bank Investments Limited	Proportion held by the British Business Bank Investments Limited
BMS Finance S.A.R.L. Registered address: 55 Avenue Pasteur, L-2311, Luxembourg	Luxembourg	Not classified	49.8%
Industrial Lending 1 (Boost Fund) Registered address: 6 Rue Adolphe, L-1116, Luxembourg	Luxembourg	Class A shares	46.6%
Pricoa Sterling Corporate Bond Fund [1] Registered address: 70 Sir John Rogerson's Quay, Dublin 2, Ireland	Ireland	Not classified	67.7%
Urica Capital Limited[2] Registered address: PO Box 1075, 9 Castle Street, St Helier, Jersey, Channel Islands, JE4 2QP	Jersey	Not classified	50.0%
Muzinich UK Private Debt Fund Registered address: 49 Avenue J.F.K, L-1855, Luxembourg	Luxembourg	Not classified	21.0%

[1]Pricoa's latest financial year end was 30 June 2017. The fund does not produce separate accounts and therefore figures for the fund are not available.

[2]Urica's latest financial year end was 30 June 2017. At the balance sheet date it had not published account in respect of that year. As at 30 June 2016, its aggregate amount of capital and reserves was £6,999,129 and during its financial year it made a profit of £70,479.

16. Dividends

On 6 September 2016 a dividend of £21,009,000 (3.054096p per share) was declared and paid to the ordinary shareholders. A dividend of £19,000,000 (2.063504p per share) was declared on 8 February 2017 and paid to the ordinary shareholders in the year.

A final dividend of £24,610,000 (2.672780p per share) is proposed but not recognised in the accounts for the year ended 31 March 2017.

17. Events after the reporting date

As at the date of these annual report and accounts, there have been no post reporting date events that require disclosure.

18. Controlling party

In the opinion of the Directors, the Company's parent company is the British Business Bank plc and ultimate controlling party is the British Business Bank plc's shareholder, the Secretary of State for the Department for Business, Energy and Industrial Strategy. The consolidated financial statements of the Department for Business, Energy and Industrial Strategy are available from the government departments' website at GOV.UK. Copies of the group financial statements of the British Business Bank plc are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

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